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THE BRITISH INCOME TAX IN RECENT YEARS.

The recent reports of the British Commissioners of Inland Revenue¹ present figures as to the income tax for an unusually interesting period. During the years 1892–1904 the tax was subjected to two severe tests, the first being the depression of the early '90's, and the second the heavy increase of the rate during the Boer War.² The data of these reports serve to confirm the claim that this tax is so well administered that it responds quickly to changes in national prosperity, but is not sensitive to the rate at which it is levied,³ therein contrasting with inefficiently administered taxes, for which any considerable increase in rate induces evasion and decline in yield.

The income tax has been imposed continuously in Great Britain since 1842. For the first twelve years the rate was 7*d.* in the pound. In 1854, however, the rate was suddenly doubled on account of the Crimean War, and in the two following years the rate was 16*d.* The elasticity of the tax was well shown at this time. No serious leaks were discovered in the assessment, and in the weakest part, Schedule D, where alone declaration of the tax-payer is employed, the decrease in gross assessment was only 1.8 per cent. the first year, and 3.3 per cent. the second year of

¹ Forty-sixth Report, 1903; Forty-seventh Report, 1904. The figures given below, unless otherwise stated, have been copied or derived from these reports and (for 1903–04) the Statistical Abstract of the United Kingdom, 1904.

² The extraordinary burdens of the war may be judged from the following table of imperial army and ordnance expenditures, beginning and ending in a period of peace:—

	<i>Millions sterling.</i>
1897–98	19.3
1898–99	20.0
1899–1900	43.6
1900–01	91.6
1901–02	92.3
1902–03	69.1
1903–04	36.5
1904–05	29.2

(Statistical Abstract, 1904).

The immediate expenses of the war amounted to 217 million pounds (1899–1903.) Of this sum, 142 millions were added to the national debt, while customs and excise contributed 35 millions, and the income tax 40 millions, in excess of what they would have yielded on the peace basis of 1898–99.

³ See Hill's *Income Tax* (American Economic Association Studies, 1889), p. 381.

the war, while in the last year there was an increase of 1.1 per cent. During this emergency the income tax provided more than a sixth of the resources of the government,—10.9 millions out of 64.1 millions sterling. From the close of the Crimean War to the opening of the recent Boer War the rate has varied from 10*d.* to 2*d.* The only considerable annual decreases in gross assessment in Schedule D previous to 1892 were due to the financial depressions of 1865–66, 1878–79, and 1884–87, and to the large increase of exemption in 1876.¹ From 1864 to 1871 the rate varied from 4*d.* to 6*d.*, from 1872 to 1877 from 2*d.* to 4*d.*, and from the latter date until 1901 it ranged from 5*d.* to 8*d.* From 1883 to 1893 it was regularly at 6*d.*, and from 1894 to 1900 at 8*d.* But rates, whether uniform or changing, have produced no traceable effect upon the amounts of income discovered.

From Table I., below, it appears that since 1892 the yield of the tax as a whole has twice failed to show as great a percentage of increase as that of the rate of the duty. The two years in question were those ending April, 1894 and 1895, respectively; and these years represent the lowest ebb of the industrial depression. The greater part of the difference in the latter year, however, was due to the con-

TABLE I.

YEAR.	Rate in pence.	Income brought under review. (Million £.)	Taxable income. (Million £.)	Net produce. Yield of the tax. (Million £.)	Annual increase % of yield.	Annual increase % of rate.	Yield per penny of tax. (000£ omitted).	Annual difference in yield per penny. (000 £ omitted).
1892–93 . .	6	679.5	537.6	13.4	—	—	2,240	—
1893–94 . .	7	673.7	525.8	15.3	14.1	16.6	2,190	—50
1894–95 ² . .	8	657.1	475.7	15.9	3.9	14.0	1,980	—210
1895–96 . .	8	677.8	488.0	16.3	2.5	—	2,030	50
1896–97 . .	8	704.7	503.7	16.8	3.0	—	2,100	70
1897–98 . .	8	734.5	525.2	17.5	4.1	—	2,190	90
1898–99 ² . .	8	762.7	548.2	18.3	4.5	—	2,280	90
1899–1900 . .	8	791.7	564.9	18.8	2.7	—	2,350	70
1900–01 . .	12	833.4	594.1	29.7	58.0	50.0	2,480	130
1901–02 . .	14	867.0	607.6	35.4	19.1	16.6	2,530	50
1902–03 . .	15	879.6	608.6	38.0	7.3	7.1	2,540	10
1903–04 . .	11	902.8	615.0	28.2	—25.8	—26.6	2,560	20

¹ Consult Hill's *Income Tax*, pp. 378 ff. and the fourth table in the appendix.

² Exemptions increased.

siderable increase in exemptions and abatements, introduced at the time that another penny was added to the rate. During the five following years, while the tax remained constant at 8*d.*, there was a steady annual increase in the yield. On account of the extraordinary expenses entailed by the Boer War the rate was advanced, first to 1*s.*, then to 1*s.* 2*d.*, and finally to 1*s.* 3*d.*, or more than double the rate of the tenth preceding year. Fortunately, the need for additional revenue came at a favorable time. Although in a single year (1900-01) the rate was increased 50 per cent., the yield of the tax more than met all reasonable expectation, for it represented a 58 per cent. increase over that of the previous year. Again, in the following year, while the rate was increased by a sixth, the yield increased by nearly a fifth. The increase of rate in the next year was 7.1 per cent., while the increase of yield was 7.3 per cent.

Before concluding, however, that the tax rate does not affect the amount of income discovered, it is necessary to study the figures for the separate schedules, since the assessment for any given year is not in exact correspondence with the income of that year, except in Schedules C and E. The figures are:—

TABLE II.

Years ending April.	Schedule A.			Schedule B.			Schedule C.			Schedule D.			Schedule E.		
	Taxable income. (Million £.)	Net produce. (Million £.)	Per cent. of total net produce of tax.	Taxable income. (Million £.)	Net produce. (Million £.)	Per cent. of total net produce of tax.	Taxable income. (Million £.)	Net produce. (Million £.)	Per cent. of total net produce of tax.	Taxable income. (Million £.)	Net produce. (Million £.)	Per cent. of total net produce of tax.	Taxable income. (Million £.)	Net produce. (Million £.)	Per cent. of total net produce of tax.
1893 . .	163.2	4.1	30.4	6.8	0.2	1.3	36.7	0.9	6.8	294.1	7.4	54.7	36.8	0.9	6.8
1894 . .	166.1	4.8	31.6	6.3	0.2	1.2	37.1	1.1	7.0	279.7	8.2	53.2	36.6	1.1	7.0
1895 . .	140.1	4.7	29.4	5.5	0.2	1.1	36.6	1.2	7.7	260.9	8.7	54.9	32.5	1.1	6.9
1896 . .	140.7	4.7	28.9	5.2	0.2	1.1	36.4	1.2	7.4	271.8	9.1	55.7	33.9	1.1	6.9
1897 . .	142.3	4.7	28.2	5.1	0.2	1.0	36.1	1.2	7.3	284.4	9.5	56.5	35.8	1.2	7.1
1898 . .	143.1	4.8	27.3	5.0	0.2	1.0	36.0	1.2	6.8	303.6	10.1	57.8	37.5	1.2	7.1
1899 . .	148.1	4.9	27.0	5.0	0.2	0.9	36.7	1.2	6.7	318.6	10.6	58.1	39.9	1.3	7.3
1900 . .	149.0	5.0	26.4	4.8	0.2	0.8	36.2	1.2	6.4	332.1	11.1	58.8	42.7	1.4	7.6
1901 . .	151.4	7.6	25.5	4.7	0.2	0.8	38.2	1.9	6.4	354.0	17.7	59.6	45.8	2.3	7.7
1902 . .	152.2	8.9	25.1	4.4	0.3	0.7	40.8	2.4	6.7	363.0	21.2	59.7	47.2	2.8	7.8
1903 . .	152.3	9.5	25.0	4.3	0.3	0.7	42.3	2.6	7.0	361.4	22.6	59.4	48.3	3.0	7.9
1904 . .	156.2			4.4			40.3			364.4			49.7		

Schedule A.

Under Schedule A are taxed the owners of real estate. The tax is first paid in nearly all cases by the occupiers, but the latter are authorized to deduct the tax from their rent. Landlords thus contribute about a fourth of the total yield. In 1893 they contributed more than 30 per cent., but the proportion to the total has declined, principally on account of the growth of business profits. There has been no absolute decrease in gross income from rents, while the variations in the income that was taxable have been due to actual changes in rental values or to authorized revaluations. There has been no possibility of concealing income from this source in order to avoid the increased burden of taxation. The only actual decrease in taxable income was in 1894-95, due to the introduction of allowance for repairs. The regular quinquennial revaluations outside the metropolis resulted in very large increases in 1893-94 and 1903-04, and especially in 1898-99.¹ Of the other years, that in which the increase in taxable income was most noteworthy was 1900-01, the year, as it happens, when the tax rate was *raised* by the greatest amount. The corresponding figures for gross income from houses show even more distinctly the influence of the several revaluations. Income from lands, on the other hand, has been uninterruptedly declining. These facts are shown by the following table:—

TABLE III.

Year ending April.	Rate.	Gross profits from houses. (Million £.)	Annual difference. (Million £.)	Gross profits from lands. (Million £.)	Assumed profits from occupation of lands ($\frac{1}{4}$ annual value). (Million £.)	Annual difference. (Million £.)
1893 . . .	6	145	—	57	19.1	—
1894 . . .	7	149.7	+4.7 ²	56.2	18.6	— .5 ²
1895 . . .	8	151.7	+2.0	55.8	18.5	— .1
1896 . . .	8	154.5	+2.8	55.4	18.4	— .1
1897 . . .	8	158.8	+4.3 ³	54.8	18.3	— .1
1898 . . .	8	161.9	+3.1	53.9	18.1	— .2
1899 . . .	8	170.2	+8.3 ²	53.	17.4	— .7 ²
1900 . . .	8	174.4	+4.2	52.8	17.3	— .1
1901 . . .	12	179.0	+4.6	52.6	17.3	—
1902 . . .	14	184.6	+5.6 ³	52.5	17.3	—
1903 . . .	15	188.5	+3.9	52.2	17.2	— .1
1904 . . .	11	198.0	+9.5 ²	52.5	—	—

¹ There were similar revaluations in the metropolis in 1896-97 and 1901-02.² Revaluation outside the metropolis.³ Revaluation in the metropolis.

Schedule B.

As profits from the occupation of lands are assumed to be one-third of their annual value, the taxable income of farmers has been declining.¹ This decline (see Table II.) amounted to 36 per cent. in a decade. On the other hand (see Table III.), farmers' assumed gross profits declined only 10 per cent., for there was an increase in deductions allowed.

Schedule C.

In Table IV. will be found the assessed income from governmental securities. It appears that there was no decline in the assessment when the rate was raised in 1894. In the next year, when the rate was again raised, the assessment did fall off; but the entire decrease was from British securities, taxed by stoppage. The decrease in the assessment of 1896-97, was also due to the falling off of income from British securities, which continued to decline until 1900-01, when it suddenly rose, owing to war loans. From governmental securities taxed by deduction, there has been a steady rise in income from India, the colonies, and America; a sudden increase from Asia; and a constant income from Africa and the continent of Europe.

TABLE IV.
ASSESSED INCOME FROM GOVERNMENT SECURITIES.
(*Million £.*)

Year ending April.	British.	Indian.	Colonial.	European.	Asiatic.	African.	American.	Total.
1893	15.2	7.8	—	—	—	—	—	38.3
1894	15.1	7.9	—	—	—	—	—	38.9
1895	14.7	8.0	10.5	1.8	.1	.8	2.8	38.6
1896	14.1	8.0	10.7	1.7	.3	.7	2.8	38.6
1897	13.6	8.1	10.7	1.7	.6	.7	3.1	38.5
1898	13.2	8.2	10.8	1.6	.7	.7	3.4	38.6
1899	12.9	8.3	11.0	1.7	1.0	.7	3.8	39.4
1900	12.7	8.3	11.3	1.7	1.2	.7	3.5	39.4
1901	14.1	8.6	11.5	1.6	1.3	.7	3.6	41.4
1902	16.2	8.9	11.8	1.6	1.3	.6	3.9	44.3
1903	17.1	9.0	12.4	1.5	1.3	.6	4.1	46.1
1904	16.0	8.7	12.9	—	—	—	—	44.9

¹ Nurseries and market gardens in this schedule are assessed by different rules. The profits from these sources amounted to less than £30,000 in 1902-03.

Schedule E.

No schedule shows as large and as constant annual increase as does that one which embraces salaries of government and public company officials. (See Tables II. and V.) Gross income under this head shows far greater increases than taxable income, largely because public companies have been rapidly increasing; and many of their employees, assessable under this schedule, receive salaries below the limit of exemption. The only year in which there was a decline instead of a large increase in gross income reviewed in this schedule was 1894-95, when business was very dull. Bankers' clearings for 1894 (January to December) showed a decrease of 2.1 per cent. over those of the previous year, and, as compared with those of 1890, a decrease of 18.7 per cent. Business failures (in which public companies participated) in 1892, 1893 and 1894 had been unusually numerous; and company promotion had appreciably slackened in 1891, 1892, and 1893.¹ Finally, in 1893-94, figures of gross income included salaries of those with total incomes between £150 and £160, while those of subsequent years excluded such salaries. Hence, although the rate in 1894-95 was raised a penny, there is not the slightest ground for attributing the decline in assessment to this fact.

TABLE V.

SALARIES OF GOVERNMENT, CORPORATION, AND PUBLIC COMPANY OFFICIALS
UNDER REVIEW.

(*Million £.*)

1892-93 . . .	51.6	1896-97 . . .	56.4	1900-01 . . .	75.4
1893-94 . . .	52.6	1897-98 . . .	59.8	1901-02 . . .	79.2
1894-95 . . .	51.0	1898-99 . . .	65.3	1902-03 . . .	82.4
1895-96 . . .	53.3	1899-1900 . .	70.1	1903-04 . . .	86.1

It appears, therefore, that Schedules A, B, C, and E show no sign of being influenced by the rate of the tax, while A, B, and E show promptly the effect of changing conditions of prosperity. Prosperity or depression is not as accurately reflected in Schedule C, but in this case correspondence is not to be expected. In times of depression,

¹ Statistical Abstract, 1904; Tugan-Baronovski, *Handelskrisen in England*, p. 150.

reliable securities abroad are apt to be sought for the very reason that business at home does not tempt investment.

Schedule D.

There still remains for examination the income reviewed under Schedule D, which now provides about 60 per cent. of taxable income and of the revenue from the income tax. It represented in 1903-04, 44 per cent. of the gross income brought under review, the wide difference between the two percentages being due to the fact that persons and firms whose incomes are below £160 are not required to declare their incomes; while in the case of the other schedules, and likewise in that part of Schedule D which applies to companies, such income is brought under review, but is omitted from taxable income. Schedule D covers, in general, business profits. But the variety of rules employed in it, requires a more detailed analysis than any of the other schedules in order to test the efficiency of the tax. It will suffice to call attention to the following rules of assessment:—

(1) Income from investments abroad, not taxed under Schedule C, and from loans secured on the public rates is taxed for the year current.

(2) Railways, gasworks, ironworks, waterworks, canals, quarries, markets, tolls, fishings, shootings, cemeteries, salt springs, and alum works are taxed on the profits of the year preceding.

(3) Mines, transferred from Schedule A, are still taxed on the basis of quinquennial valuation.

(4) Other profits, including salaries not taxed under Schedule E, are assessed upon the average income of the three business years preceding the year of assessment.¹

(1) Interest from loans secured on the public rates calls for little comment. This income increased every year of the period, as local indebtedness is growing, and there is no possibility of concealing income from this source.

¹ In this analysis three unimportant groups of Schedule D are altogether omitted.

TABLE VI.
INTEREST FROM LOANS SECURED ON THE PUBLIC RATES.
(*Million £*).

1892-93	3.9	1897-98	6.6 ¹
1893-94	4.1	1898-99	5.6
1894-95	5.0	1899-1900	5.9
1895-96	5.1	1900-01	6.0
1896-97	5.2	1901-02	6.6
		1902-03	7.0

The ascertaining of income arising from foreign investments not taxed under Schedule C is one of the two least perfect parts of the system. Income from abroad can be concealed more easily than any other. A statute of 1885, requiring bankers, coupon dealers, and agents entrusted with the payment of interest and dividends to deduct on behalf of the revenue, resulted immediately in a 22 per cent. increase in the assessment upon foreign securities in this schedule. It is generally felt² that many still escape taxation on their foreign income by avoiding agents altogether, but how much is lost in this way it is impossible to estimate with any accuracy. The figures in Table VII. tend to confirm, though they do not convincingly prove, the justice of this suspicion. In 1893-94, when there was an increase of a sixth in the rate, there was a decrease of assessment upon non-governmental foreign securities amounting to £700,000, or 2.2 per cent. In the next year, with an increase of a seventh in the rate, there was a decrease of £1,800,000, or 5.7 per cent. These are perhaps attributable in part to the financial depression of those years, though foreign securities, more automatically taxed, showed no such decline. But, since these were years of dulness in most other countries, not much stress can be laid upon this difference. Depression, however, cannot account for the fact that there was a decrease of £500,000, or 1.5 per cent., in this branch of Schedule D in 1900-01 at the time of a 50 per cent. increase in the rate, for this was a time of prosperity; and no other important source of income showed any decrease which can be traced to this year. The decrease in the case of foreign securities, to be

¹ Unusual increase due to a single large assessment subsequently vacated.

² See Forty-sixth Report of the Commissioners of Inland Revenue, p. 173, and Hill, pp. 341, 342.

sure, was slight; but it must be remembered that it would be difficult to conceal in a single year income which had been taxed in the previous year. While, therefore, the loss was slight in this instance, it indicates the possibility of larger permanent concealments. In the next year, however, when the rate was advanced a sixth, the showing was good; for there was an increase in assessment of £1,000,000, or 4.2 per cent. Although it thus appears that there is considerable room for evasion of this branch of the tax, it is also true that there is a very large part of this form of income that cannot escape taxation, or can be made to do so only with extreme difficulty. In the year 1902-03 the total assessed income from foreign securities other than government loans amounted to 34.9 millions. Of this 30.5 millions were derived from agents, bankers, coupon dealers, and public companies. The evasion was confined, for the most part, to private individuals and firms, who together declared only 4.4 millions. The following table shows the results of the assessment of these securities for a period of years:—

TABLE VII.

COLONIAL AND FOREIGN SECURITIES (OTHER THAN GOVERNMENT) AND POSSESSIONS, "COUPONS," AND RAILWAYS OUT OF THE UNITED KINGDOM (OTHER THAN INDIAN GUARANTEED RAILWAYS).

(*Million £.*)

1892-93 . . . 32.	1896-97 . . . 31.5	1900-01 . . . 33.1
1893-94 . . . 31.3	1897-98 . . . 31.3	1901-02 . . . 34.4
1894-95 . . . 29.6	1898-99 . . . 33.2	1902-03 . . . 34.9
1895-96 . . . 30.5	1899-1900 . . 33.6	1903-04 . . . 36.9

(2), (3). Reported earnings from railways corresponded roughly to the general conditions of trade. The highest assessment, 1900-01, reflected the exceptional prosperity of the previous year. Income from gasworks declined only once before 1901. The earnings of ironworks fell as the result of the depression of '93, and remained constant for several years, but since the revival of business have risen rapidly. Waterworks and quarries show gains without any interruptions. Canal earnings fluctuated, on the whole declining. Thus, in all the industries where earnings are ascertained from year to year, the fluctuations have been entirely independent of the rate of the tax. The same is true of mining

where the profits of five years are averaged. In these industries there is little possibility of concealing profits, which, with the exception of about £5,500,000, are all earned by public companies or local authorities, and hence the tax is collected by deduction.

TABLE VIII.

ASSESSED EARNINGS OF INDUSTRIES TAXED BY SPECIAL RULES FOR THE
YEARS—
(*Million £.*)

	1892-93.	1893-94.	1894-95.	1895-96.	1896-97.	1897-98.
Railways . . .	36.3	35.8	34.4	36.5	37.5	39.7
Gasworks . . .	4.5	4.8	5.1	6.0	5.5	5.6
Ironworks . . .	2.1	1.8	1.8	1.9	1.8	2.6
Waterworks . .	3.7	3.8	3.9	4.0	4.0	4.3
Canals	3.5	3.5	3.3	3.6	3.4	3.6
Quarries . . .	1.0	1.0	1.1	1.1	1.2	1.4
Markets, etc. .	1.7	1.7	1.7	1.7	1.8	1.9
Mines ¹	12.0	12.3	12.7	12.3	10.5	9.1

TABLE VIII. (*Continued*).

	1898-99.	1899-1900	1900-01.	1901-02.	1902-03.
Railways	40.0	39.4	40.7	38.7	38.1
Gasworks	5.6	6.1	6.4	5.9	5.5
Ironworks	3.0	3.2	5.4	6.6	4.0
Waterworks	4.5	4.6	4.7	4.7	4.8
Canals	3.5	3.5	3.4	3.2	3.4
Quarries	1.5	1.6	1.7	1.6	1.5
Markets etc.,	1.8	1.3 ²	1.3	1.3	1.4
Mines ¹	8.9	9.5	12.0	17.6	20.3

(4) In the entire scope of the income tax there are only two branches in which there is room for serious failure in reaching income liable for the tax. The case of foreign securities in Schedule D has already been noted. Difficulties of another sort arise in connection with trades and professions exercised within the United Kingdom by single persons or by firms (unincorporated). Here it is impossible to conceal all income, as one might conceivably do with foreign investments; but it is a matter of less difficulty to conceal a *part* of one's earnings from business pursuits. It is far more urgent to administer the tax efficiently with respect to this income than with reference to that drawn

¹ These figures give 5-year averages.

² Certain assessments transferred to Schedule A.

from abroad, since the sum involved is many times larger. In 1902-03 the income assessed to persons and firms and to their employees was 202.2 millions. Obviously, this sort of income presents inevitable difficulties under any method of assessment; but a well-organized and zealous administration can reduce the possibility of evasion to a very low range by carefully checking the declaration of the taxpayer with the help of all available information. To secure this result, most elaborate provision has been made, and with much apparent success. Furthermore, public companies are continually superseding private persons and firms in the prosecution of trade and industry; and this movement greatly simplifies the work of the revenue agents. Since 1893 the proportion assessed to business under private management has fallen from 73.2 per cent. to 55.3 per cent. of the total. Indeed, private profits, so far as discovered, were higher in absolute amount in 1891-92 than in any subsequent year until 1899-1900, and fell again in 1902-03. On the other hand, profits of incorporated companies failed only once to show an annual increase; and, though the percentage of gain was not large until 1895-96, in each of five of the years succeeding the gains were 13 per cent. or over.

TABLE IX.
INCOME UNDER SCHEDULE D NOT ASSESSED ACCORDING TO SPECIAL RULES.¹

Year ending April	Total gross income. (Million £.)	Income assessed to persons and firms. (Million £.)	Per cent. of total.	Annual per cent. of increase.	Public companies and local authorities. (Million £.)	Annual per cent. of increase.
1892	263.9	193.6	73.3	—	70.4	—
1893	261.6	190.2	72.7	—1.7	71.4	1.4
1894	252.1	184.7	73.2	—2.8	67.4	—5.6
1895 ²	238.6	170.9	71.5	—7.5	67.7	0.4
1896	250.6	173.2	69.1	1.3	77.4	14.3
1897	271.1	181.5	66.9	4.7	89.6	15.6
1898	291.4	188.1	64.5	3.6	103.3	15.2
1899 ²	304.3	191.7	63.0	1.9	112.6	9.0
1900	322.8	195.1	60.4	1.7	127.7	13.4
1901	347.0	199.5	57.4	2.2	147.5	15.5
1902	361.5	205.4	56.8	2.9	156.1	5.8
1903	365.1	202.2	55.3	—1.5	162.9	4.3
1904	367.4	—	—	—	—	—

¹ See Forty-fifth Report, Inland Rev. Com., p. 189, for the data from 1892 to 1901. The official designation of this group is now "Business not otherwise detailed." Before 1900 it was known as "Trades and professions."

² Exemption increased.

Inasmuch as the encroachment of company organization prevents any appreciable increase in income from private trades and professions, it would be improper to compare these fluctuations either with changes in the rate of taxation or with changes in commercial prosperity. But in Table X. will be found a comparison of annual increases of the combined profits assessed to persons, firms, public companies, and local authorities, with corresponding increases of bank clearings for the triennial periods upon which the assessment for each year was based:—

TABLE X.

	Total gross income of unspecified businesses. (Million £.)	Per cent. increase.	Per cent. increase of average bank clearings in each corresponding triennial period.
1891-92	263.9	—	—
1892-93	261.6	—0.8	—0.4
1893-94	252.1	—3.6	—5.0
1894-95	238.6	—4.5 ¹	—6.2
1895-96	250.6	5.0	—2.5
1896-97	271.1	8.1	5.3
1897-98	291.4	7.4	5.8
1898-99	304.3	4.4 ¹	5.3
1899-1900	322.8	3.1	2.4
1900-01	347.0	7.4	6.8
1901-02	361.5	4.1	5.9
1902-03	365.1	0.9	5.5
1903-04	367.4	0.6	3.1

As already stated, these profits are assessed on the average of three years preceding the year of assessment. Thus the assessment of 1897-98 would represent the average profits of the three years ending April 5, 1897, "or on the date immediately preceding, to which the annual accounts of the trade, profession, employment, or vocation, have been usually made up."² Under this rule the most common average represented by the assessment of 1897-98 would be that of the calendar years 1894, 1895 and 1896. Therefore, in Table X. (above), the increase of assessment of this year has been compared with the increase of the average of bank clearings in 1894, 1895 and 1896 over the average

¹ Exemption increased.² See Hill, Appendix A, p. 391.

of 1893, 1894 and 1895. And so for other years. It appears that the decreases of gross income under this head in 1892-95 were less heavy than corresponding decreases of bank clearings. Until 1901-02 all the subsequent annual increases of this income brought under review were larger, with one exception, than were the corresponding increases in bank clearings. As bank clearings are, in a country like Great Britain, the best single test of national prosperity that we have, this comparison speaks well for the accuracy of the assessment in this branch, considering all the obstacles which have to be met. This comparison down to and including 1900-01 is sufficiently significant to commend caution in interpreting the less favorable showings since that date. While it seems clear that small changes in the rate have produced no traceable effect upon the assessments in this group, it would not be surprising if the unusual increase of rate did, indeed, induce a certain amount of concealment. That the assessment merely held its own under so severe a strain is cause for approbation. Even the assessment upon private trades and professions has declined so little that the decrease might, in any other time, have been attributed wholly to reorganizations into companies.

Whether or not actual concealment has been stimulated in a small degree, it is certain that one fiscal disadvantage must be balanced against the gain by the high rate. This is the increasing resort to the practice of claiming abatements. When the rate was comparatively low, many who were legally entitled to abatements paid in full rather than suffer the inconveniences and possible embarrassments necessary to secure relief. With the heavy rate there were many who felt that they could no longer afford to forego the abatements, and many more for the first time discovered that they were entitled to abatement. It has even become a profitable business to guide tax-payers through the formalities required for obtaining this relief.¹ Hence the high rate has introduced what may prove to be a per-

¹ Consult Goschen, *Essays and Addresses on Economic Questions*, London, 1905, pp. 246 ff.

manent deduction from taxable income. But this result in no wise reflects upon the efficiency of the system of administration. The effect has rather been to force taxpayers to claim what the law intended that they should claim.

This survey has shown the utility of the method of subdivision in administering the tax, the advantage of which is not only to facilitate the application of the surest methods of approach to the various kinds of income, but also to aid in locating, and hence more easily correcting, imperfections in the system. But perhaps the greatest merit of this tax is that it approaches nearly all income without the assistance of the ultimate payer of the tax. In fact, less than one-fourth of all the income brought under review is now assessed upon the basis of declarations made by the taxpayers.¹ And, even in cases where the income cannot be taxed at its source, the officials can estimate a considerable part of it with sufficient accuracy to make evasion extremely difficult. Probably less than 10 per cent. of all the taxable income manages to escape taxation.

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¹ The following table shows, as precisely as can be ascertained, the gross assessment of incomes taxed indirectly, by deduction, etc., and directly, upon declaration:—

I. Declaration of the tax-payer unnecessary:—		<i>Million £ (1902-03)</i>	
A.	Ownership of lands and houses, etc., external marks,	241.9	
B.	Occupation of lands, external marks	17.5	
C.	Government securities, stoppage, and deduction . .	46.1	
D.	Foreign business securities, where income is received through agents or public companies, deduction . .	30.5	
D.	Profits of companies and local authorities, deduction,	245.6	
E.	Salaries of government and of public company officials, stoppage, deduction, and declaration of employing company	82.4	
			664.0
II. Taxed by declaration:—			
D.	Profits and salaries, persons and firms, declaration . .	211.2	
D.	Foreign securities taxed by declaration	4.4	215.6
			879.6